

FINDINGS AND RECOMMENDATIONS

The Committee found that in general the City of San Diego is fiscally sound. As shown in Attachment 1, the City has been recognized Statewide and Nationally for its achievements. However, the Committee identified several areas of concern and if not adequately dealt with, they could have a significant effect on the fiscal health of the City in future years. Below are the Committee's findings and recommendations in each of the major areas:

I. General Reserves and Insurance

The Committee found that as of June 30, 2001, the City's General Reserves were \$30.5 million or approximately 4% of the total General Fund Revenues. This represents a substantial increase in reserves over the last 5 years. While reserves may never be sufficient to cover such one-time occurrences as large judgments or physical catastrophes, they should be sufficient to cover unplanned circumstances such as short-term economic downturns. The Committee was informed that the City maintains adequate insurance: worker's compensation, certain group health benefits and long-term disability, earthquake, general liability, and automobile liability insurance.

Recommendation 1: Evaluate and determine what an adequate reserve level is for the City. At this time, the Committee recommends increasing the reserves to be between 7 to 10% of General Fund Revenues.

II. Long Term Debt

The Committee found that historically and currently, the City's total debt outstanding as well as total debt compared to all tax property valuations have been well below the median as compared to other major cities. The City's debt service has remained constant as compared to expenditures and revenues and is expected to increase only minimally with the addition of the proposed Ballpark, Fire Stations, and Library System bond issuances. The outside Rating Agency firms of Moody's, Standard and Poor's and Fitch evaluate the City's fiscal health in great detail and have consistently given the City high ratings which reflects a variety of very strong general credit characteristics such as the ability to repay long term debt, a diversified economy, moderate debt burden and strong financial management. See Attachments 2 and 3.

The Committee has no recommendations in this area and applauds City Management for its judicious use of debt.